

**REPORT OF THE AUDIT OF THE
GRAVES COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES**

For the Period April 30, 2005 through April 28, 2006

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
GRAVES COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES**

For the period April 30, 2005 through April 28, 2006

Romaine & Associates, PLLC has completed the audit of the Sheriff's Settlement - 2005 Taxes for Graves County Sheriff for the period April 30, 2005 through April 28, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$ 8,038,863 for the districts for 2005 taxes, retaining commissions of \$331,538 to operate the Sheriff's office. The Sheriff distributed taxes of \$7,678,415 to the districts for 2005 Taxes. Additional taxes of \$23,554 are due to the districts from the Sheriff for 2005 taxes.

Report Comment(s):

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Remit \$23,554 To The Taxing Districts
- The Sheriff Should Annually Prepare A Franchise Tax Settlement In Accordance With KRS 134.310
- The Sheriff Should Distribute Interest Earned On Franchise Account Monthly

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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Krista Romaine, CPA, Member
Charlotte Clark, Member

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CERTIFIED PUBLIC ACCOUNTANTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable John Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Independent Auditor's Report

We have audited the Graves County Sheriff's Settlement - 2005 Taxes for the period April 30, 2005 through April 28, 2006. This tax settlement is the responsibility of the Graves County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Graves County Sheriff's taxes charged, credited, and paid for the period April 30, 2005 through April 28, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated May 13, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable John Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Remit \$23,554 To The Taxing Districts
- The Sheriff Should Annually Prepare A Franchise Tax Settlement In Accordance With KRS 134.310
- The Sheriff Should Distribute Interest Earned On Franchise Account Monthly

Respectfully submitted,

Krista Romaine, CPA

Krista Romaine, CPA
Romaine & Associates, PLLC

May 13, 2008

GRAVES COUNTY
JOHN DAVIS, SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES
For the period April 30, 2005 through April 28, 2006

Charges	Special			
	County Taxes	Taxing Districts	School Taxes	State Taxes
Real Estate	\$ 902,100	\$ 1,035,865	\$ 2,729,734	\$ 1,327,810
Tangible Personal Property	121,383	126,791	334,125	375,991
Intangible Personal Property				146,887
Fire Protection	694	409,080		
Franchise Taxes:				
Billed	127,810	156,744	341,809	
Unbilled	324	314	720	
Additional Billings	982	2,407	3,347	1,458
Oil and Gas Property Taxes	141	152	539	207
Limestone, Sand and Mineral Reserv	134	145	515	198
Bank Franchises	91,931			
Penalties	9,735	16,601	30,789	12,041
Adjusted to Sheriff's Receipt	(1,424)	(1,499)	469	(2,146)
Gross Chargeable to Sheriff	<u>\$ 1,253,810</u>	<u>\$ 1,746,600</u>	<u>\$ 3,442,047</u>	<u>\$ 1,862,446</u>
Credits				
Exonerations	\$ 3,230	\$ 7,279	\$ 11,381	\$ 6,862
Discounts	17,778	24,017	47,448	29,327
Delinquents:				
Real Estate	16,779	18,874	45,115	24,692
Tangible Personal Property	892	3,104	2,418	2,891
Intangible Personal Property				2,115
Additional Billing	69	234	75	102
Unbilled Franchise Taxes	324	314	720	
Total Credits	<u>\$ 39,072</u>	<u>\$ 53,822</u>	<u>\$ 107,157</u>	<u>\$ 65,989</u>
Taxes Collected	\$ 1,214,738	\$ 1,692,778	\$ 3,334,890	\$ 1,796,457
Less: Commissions *	<u>51,914</u>	<u>69,591</u>	<u>133,396</u>	<u>76,637</u>
Taxes Due	\$ 1,162,824	\$ 1,623,187	\$ 3,201,494	\$ 1,719,820
Taxes Paid	1,159,804	1,608,615	3,191,429	1,718,567
Refunds (Current and Prior Year)	<u>849</u>	<u>1,284</u>	<u>1,971</u>	<u>1,252</u>
Due Districts or (Refund(s) Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 2,171</u>	<u>\$ 13,288</u>	<u>\$ 8,094</u>	<u>\$ 1</u>

The accompanying notes are an integral part of this financial statement.

GRAVES COUNTY
 JOHN DAVIS, SHERIFF
 SHERIFF'S SETTLEMENT - 2005 TAXES
 For the period April 30, 2005 through April 28, 2006
 (Continued)

* Commissions:

	<u>Taxes</u>	<u>Commissions</u>
10% on	\$ 10,000	\$ 1,000
4.25% on	4,249,709	180,613
4% on	3,737,759	149,511
1% on	41,395	414
Totals	<u>\$8,038,863</u>	<u>\$ 331,538</u>

** Special Taxing Districts:

Library District	\$ 1,158
Health District	916
JU Kevil	550
Watershed District 1	341
Watershed District 2	7,151
Symsonia Fire	21
Volunteer Fire Departments	
Clear Springs	614
Cuba	499
Fancy Farm	(230)
Farmington	115
Lowes	269
Melber	(230)
North Graves	(38)
Rescue Squad	(307)
Sedalia	422
Viola	307
Water Valley	230
Wingo	<u>1,500</u>

Due District(s) or

(Refund(s) Due Sheriff) \$ 13,288

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT

APRIL 28, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT
APRIL 28, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 28, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 20, 2005 through April 28, 2006.

Note 4. Interest Income

The Graves County Sheriff earned \$8,321 as interest income on 2005 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of May 13, 2008, the Sheriff owed \$267 in interest to the school district and \$593 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Graves County Sheriff collected \$47,090 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of May 13, 2008, the Sheriff owed \$24 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Graves County Sheriff collected \$1,863 of advertising costs and \$5,038 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

COMMENTS AND RECOMMENDATIONS

GRAVES COUNTY
JOHN DAVIS, SHERIFF
COMMENTS AND RECOMMENDATIONS

For the period April 30, 2005 through April 28, 2006

STATE LAWS AND REGULATIONS:

The Sheriff Should Remit \$23,554 To The Taxing Districts

The proper distribution of tax money collected by the Sheriff requires the collection of receivables and distributing the payables to the appropriate taxing districts. The county's districts rely on the tax collections to provide services, and these services could suffer as a result of not receiving their tax collections. The following net payables should be made to the taxing districts. We recommend that the Sheriff pay the amounts below.

Districts	Due Districts or Refunds Due Sheriff
State of Kentucky	\$ 1
Graves County Fiscal Court	2,171
Board of Education	8,094
Library District	1,158
Health District	916
JU Kevil	550
Watershed District 1	341
Watershed District 2	7,151
Symsonia Fire	21
Volunteer Fire Departments	
Clear Springs	614
Cuba	499
Fancy Farm	(230)
Farmington	115
Lowes	269
Melber	(230)
North Graves	(38)
Rescue Squad	(307)
Sedalia	422
Viola	307
Water Valley	230
Wingo	1,500
Due District(s) or (Refund(s) Due Sheriff)	<u>\$ 23,554</u>

Sheriff's Response: Will Comply.

GRAVES COUNTY
JOHN DAVIS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For the period April 30, 2005 through April 28, 2006
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Sheriff Should Annually Prepare A Franchise Tax Settlement In Accordance With KRS 134.310

While reviewing the Fiscal Court Order Book, auditors noted that the franchise tax settlement – 2005 had not been approved. The property tax settlement – 2005 was approved by the fiscal court on September 11, 2006. After speaking with the franchise tax bookkeeper, it was disclosed that a franchise tax settlement had not been prepared for the 2005 tax year. We recommend that the sheriff annually prepare a franchise tax settlement in accordance with KRS 134.310. The prepared franchise tax settlement should be also approved by the fiscal court.

Sheriff's Response: Will Comply.

The Sheriff Should Distribute Interest Earned On Franchise Account Monthly

KRS 134.140(3)(b) states that “at the time of his monthly distribution of taxes to the district board of education, the sheriff shall pay to the board of education that part of his investment earnings for the month which is attributable to the investment of school taxes...”. The remaining interest should be paid to the Sheriff's fee account and may be used to pay lawful expenses of his office.

During testing procedures, auditors noted that investment earnings on franchise tax collections have not been distributed at all. Based on these tests, the Sheriff owes the school, \$146 and his fee account \$629 for interest earned on 2005 Franchise tax collections. In the future, we recommend that the Sheriff comply with KRS 134.140(3)(b) by distributing interest earned proportionately to the school and his fee account in a timely manner.

Sheriff's Response: Will Comply.

GRAVES COUNTY
JOHN DAVIS, SHERIFF
COMMENTS AND RECOMMENDATIONS
For the period April 30, 2005 through April 28, 2006
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size, and budget restrictions the official has limited options for establishing adequate segregation of duties. We are recommending that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff or his designee should periodically compare a daily bank deposit to the daily collection report and daily cash sheet. Any differences should be reconciled. This could be documented by initialing the bank deposit slip, daily collection report, and daily cash sheet.
- The Sheriff or his designee should compare the tax settlement to monthly reports and bank records for accuracy. Any differences should be reconciled. This could be documented by initialing the tax settlement.
- The Sheriff or his designee should periodically compare tax payments to monthly reports. This could be documented by initialing the monthly report.
- The Sheriff or his designee should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. This could be documented by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: Will attempt to meet recommendations.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Krista Romaine, CPA, Member
Charlotte Clark, Member



William Erwin, CPA
Van R. Prince, CPA

CERTIFIED PUBLIC ACCOUNTANTS

The Honorable Tony Smith, Graves County Judge/Executive
Honorable John Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Graves County Sheriff's Settlement - 2005 Taxes for the period April 30, 2005 through April 28, 2006, and have issued our report thereon dated May 13, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Graves County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The following reportable condition is described in the accompanying comments and recommendations.

- **The Sheriff's Office Lacks Adequate Segregation Of Duties**

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Graves County Sheriff's Settlement - 2005 Taxes for the period April 30, 2005 through April 28, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Remit \$23,554 To The Taxing Districts
- The Sheriff Should Annually Prepare A Franchise Tax Settlement In Accordance With KRS 134.310
- The Sheriff Should Distribute Interest Earned On Franchise Account Monthly

This report is intended solely for the information and use of management, the Graves County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Krista Romaine, CPA

Krista Romaine, CPA
Romaine & Associates, PLLC

May 13, 2008